National Association of Children's Hospitals

401 Wythe Street
Alexandria, VA 22314
(703)684-1355 Fax (703)684-1589

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Testimony of

David Alexander, MD
President
DeVos Children's Hospital
Grand Rapids, MI

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"Medicaid: Empowering Beneficiaries on the Road to Reform"

Chairman Barton, Ranking Member Dingell and distinguished members of the Committee, my name is David Alexander and I am the president of DeVos Children's Hospital in Grand Rapids, MI, and a pediatrician. I appreciate the opportunity to testify before you today on behalf of my hospital and the National Association of Children's Hospitals on the critical role Medicaid plays for children and children's hospitals.

DeVos Children's Hospital is a tertiary referral center for 37 counties in Western Michigan and an established leader dedicated to improving the health and lives of children and families. We receive nearly 7,000 inpatient admissions and provide more than 100,000 outpatient visits and nearly 30,000 emergency department visits annually. We are a vital resource for our communities and our region, providing care to every child who comes to us, regardless of ability to pay. We are part of Spectrum Health, the largest employer in West Michigan. We are also affiliated with 17 other hospital providers across western and northern Michigan from St. Josephs to Cheboygan in a "Partners in Childrens' Health Network."

Founded in 1995, N.A.C.H. is the public policy affiliate of the National Association of Children's Hospitals and Related Institutions (NACHRI). N.A.C.H. represents more than 130 children's hospitals nationwide, including independent acute care children's hospitals, children's hospitals within larger hospitals, and children's specialty and rehabilitation hospitals. N.A.C.H. assists them in fulfilling their missions of clinical care, education, research, and advocacy devoted to children's unique health needs.

In my testimony, I would like to underscore three points.

1. Medicaid affects health care for *all* children. Children are more than half of Medicaid recipients, yet account for only 22% of Medicaid spending, including children with disabilities. Medicaid reforms that seek to find savings in the area of children's coverage, whether by reducing benefits or imposing cost sharing, can put children and their providers at risk. When Medicaid support for children tightens, it can have such a large financial impact on children's providers that it can affect their ability to deliver a wide range of services needed by all their patients, not only those covered by Medicaid. Children's hospitals urge Congress to retain children's guarantee of medically necessary care and children's exemption from cost sharing under Medicaid.

2. Medicaid is the financial backbone of children's hospitals and children's health care. The nation's children's hospitals welcome Congress' interest in taking a serious look at how to sustain, strengthen, and modernize Medicaid. Children's hospitals, and the children and families we serve, rely upon a strong, stable Medicaid program because it is a vital partner in health care for all children, rich and poor alike. One in four children relies on Medicaid for health coverage. Medicaid on average represents more than 30% of a pediatrician's payments and 50% of a children's hospital's revenues. In many states, the proportions are much higher.

3. Children's hospitals support reforms that address the unique and very real challenges children face in Medicaid today. The most significant challenge facing Medicaid coverage for children is not out-of-control spending or too rich benefit packages that are inappropriate to their needs. Instead, the real challenges are barriers to enrollment for eligible children, a dearth of pediatric quality and performance measures, and the absence of adequate payment, much less any reward or incentives for efficiency, for children's health care providers. A Medicaid program that can recognize and reward quality and efficiency can mean better care and lower costs.

Medicaid Is a Vital Partner in Health Care For All Children

Both directly and indirectly, Medicaid has become a vital partner in the provision of health care for all children. Medicaid not only covers 26 million children, along with the State Children's Health Insurance Program (SCHIP) it also protects children from the loss of health insurance plaguing a growing number of adults. According to the U.S. Census Bureau, it is because of Medicaid and SCHIP that the number and proportion of children who are uninsured has not increased at a time when employer-sponsored health insurance has been declining and the number of all uninsured people has continued to grow. Children's hospitals support federal incentives to deter loss of private coverage, but we believe Medicaid and SCHIP's safety net coverage for children should be maintained and strengthened.

More than half of Medicaid's enrollees, 50.5 percent, are children. Children under one year of age are 3.8 percent of Medicaid enrollees, children ages 1-5 are 16.5 percent of enrollees, and children ages 6-18 are 30.2 percent of enrollees. Fifty percent of children receiving Medicaid or SCHIP live at or below the federal poverty level.

At any point in time, Medicaid pays for the health care of one in four children, nearly one in three children with special health care needs, and one in three infants in the U.S. In some of the nation's poorer states, Medicaid pays for the health care of nearly one in three children and one in two infants.

With Medicaid financing health care for such a large number of the nation's children, it is surprising to many that expenditures on children's health services are not driving the growth in Medicaid spending. Children, including children with disabilities, account for only 22% of all Medicaid spending. On average, Medicaid spends $1,388 per non-disabled child, compared to $1,790 per non-elderly, non-disabled adult, $11,408 per disabled individual, and $10,694 per elderly adult per year, as of FY 2002. Annual per capita spending for all children, including children with disabilities, is $1,773, compared to $4,891 for all non-elderly adults, including those with disabilities.

The low Medicaid cost per child reflects the fact that children are generally healthier than adults. It also reflects the fact that in the last decade, the major strategy used by states to control Medicaid spending has been capitated managed care plans. Children have led the managed care revolution in both public and private insurance, with the majority of all children assisted by Medicaid now enrolled in managed care but only the minority of adults and the elderly.

Taken together, these facts mean two things. First, because it finances such a large proportion of children's health care, over time Medicaid literally can affect access to health care for *all* children. Second, because children account for such a small proportion of Medicaid spending, there is little opportunity to achieve substantial Medicaid savings from children's health care.

Medicaid Is the Financial Backbone of Children's Hospital Services

In the U.S., children's hospitals are indispensable to children's health care, because pediatric health care services, particularly specialty care, are concentrated in relatively few institutions.

- Children's hospitals are the major providers of both pediatric inpatient and outpatient services. Less than 5% of all hospitals, children's hospitals provide more than 40% of all hospital care for children, and more than 80% of hospital care required by children with serious illnesses, such as cancer or heart disease. Children's hospitals perform 98% of pediatric organ replacements.

- Despite representing such a small proportion of all hospitals, children's hospitals train the majority of the nation's pediatricians, virtually all of its pediatric sub-specialists and the large majority of pediatric research scientists.

- Children's hospitals house the nation's leading pediatric biomedical and health services research centers. More than a third of all of the National Institutes of Health's pediatric research funding supports research in children's hospitals or their affiliated medical school pediatric departments.

- Children's hospitals are the major safety net providers for children. They are often doctor, clinic, dentist and hospital for low-income children. Children's hospitals work hand in glove with community health centers in providing staff and taking referrals for children needing specialty care. They are the frontlines of support for child abuse prevention and treatment, as well as public health and injury prevention advocacy for children.

Although almost all are private institutions, children's hospitals depend on Medicaid financing to serve all children, as well as children from low-income families, because Medicaid plays an extraordinarily large role in their financing. On average, children's hospitals devote about 50%

of their patient care to children assisted by Medicaid. It is not unusual for a children's hospital to devote 60%, 70%, or more of their care to children assisted by Medicaid. At DeVos Children's, 41% of our patients are covered by Medicaid. We are the second largest provider of Medicaid services to children in Michigan.

Medicaid is characterized as a state/federal partnership, but a key partner is missing from that characterization: safety net providers, such as children's hospitals, that provide the majority of care to Medicaid beneficiaries.

Medicaid depends on safety net hospitals such as children's hospitals to remain true to our missions: to provide the highest quality care to *all* children who come through our doors, regardless of ability to pay. The nation's children's hospitals will always strive to hold steadfast to our missions, but low Medicaid reimbursements have increasingly made it more difficult.

Since 2001, children's hospitals, along with pediatricians, have struggled annually to avoid state Medicaid provider reimbursement cuts, as almost every state has adopted repeated, annual reductions in its Medicaid budget. In Michigan, where the state economy continues to struggle, the state Medicaid program has been cut more than $540 million since 1998, and is now underfunded by $1 billion.

Medicaid also falls short of paying the cost of the care required for the children it covers. On average, Medicaid reimburses 73% of the cost of patient care provided by a children's hospital. Even with disproportionate share hospital (DSH) payments, a children's hospital is reimbursed for, on average, only about 80% of costs. For outpatient primary and specialty care, as well as physician care, the picture is even worse.

Taken together, these facts mean that Medicaid plays such a large role in the financing of children's hospitals that any changes in Medicaid potentially could affect the financial ability of the hospitals to serve *all* children, because we cannot reduce services for only poor children in order to absorb Medicaid losses. Our hospitals must absorb Medicaid losses in their clinical, training, research and community programs by increasing waiting times for services, closing the financially weakest services, delaying expansion of new services, curtailing training programs at a time of growing pediatric subspecialist shortages, or curbing the development of research enterprises. Such actions affect access to health care for *all* children in our communities.

Children's Hospitals Recommend Retaining Medicaid's Unique Benefits for Children and Federal Exemption From Cost Sharing

Benefits

Calls for increased state flexibility to provide different benefit packages across populations promise little in real savings from children's health care and do not reflect the reality of children's health care needs. By and large, children are very small consumers of health care. Nationwide, 95% of children account for only about 6% of personal health care spending. In Medicaid, children represent more than 50 percent of enrollees but account for only 22 percent of spending.

Although most children are healthy, a child can become seriously ill in the blink of an eye. That is why all children need the full scope of Medicaid's Early and Periodic Screening,

Diagnostic and Treatment (EPSDT) benefit, including its federal guarantee of medically necessary care for children. EPSDT was designed to meet children's unique health care needs, particularly children with disabilities who are disproportionately represented in Medicaid.

Congress should retain the EPSDT benefit package for Medicaid eligible children and should not permit it to be waived. At a minimum, EPSDT should be retained for all mandatory eligible children, all children with family incomes below 150% of poverty, and all eligible children with disabilities, including optionally eligible children with disabilities, such as "Katie Beckett" children and children in foster care.

Cost Sharing

Congress should retain Medicaid's exemption of children from cost sharing. Research has demonstrated that cost-sharing can discourage health care utilization, with adverse impact on health status. Imposing cost sharing on children is unlikely to prevent what is often deemed "inappropriate" or excessive use of medical services. It could, however, prevent parents from seeking care at the right time and in the right setting, resulting in a sicker child and more expensive care.

At a minimum, new cost sharing obligations should not be imposed on children with family incomes below 150% of poverty. All eligible children with disabilities, including optionally eligible children with disabilities such as "Katie Beckett" children, and children in foster care, should also be exempt from cost sharing obligations.

For children with incomes above 150% of poverty, cost sharing obligations should be no greater than what is permitted by SCHIP. Such cost sharing should be limited to co-payments and deductibles; it should not include insurance premiums, which, if unpaid, would leave a child uninsured.

Additionally, parents' failure to pay cost-sharing obligations should not prevent children from receiving the care they need, nor should it prevent providers from being reimbursed for the services. As President Bush said in his first inaugural address, "Children at risk are not at fault."

Children's Hospitals' Recommendations for Modernizing Medicaid for Children

The real challenges facing children in Medicaid are unfulfilled enrollment, the dearth of pediatric quality and performance measures and a lack of federal Medicaid investment in their development, and the absence of any reward for quality and performance in pediatric care.

To address these challenges, children's hospitals recommend reforms that would:

1. Dramatically improve enrollment of millions of eligible but unenrolled children in public insurance programs.

2. Make a meaningful investment in the development and evaluation of pediatric quality and performance measures.

3. Give Medicare Prospective Payment System (PPS)-exempt children's hospitals the ability to participate in the 340(B) drug discount program if they meet the same eligibility criteria as other disproportionate share hospitals (DSH).

Enroll All Eligible Children

Two-thirds of the nation's uninsured children are eligible but not enrolled in Medicaid or SCHIP. If all eligible children were enrolled, the nation would have virtually eliminated the problem of uninsured children – and the health risks that accompany it.

President Bush, as well as leaders in both parties in Congress, supports proposals that would help states to enroll all eligible children in Medicaid and SCHIP. Last September President Bush said, "America's children must also have a healthy start in life…we will lead an aggressive effort to enroll millions of poor children who are eligible but not signed up for the government's health insurance programs. We will not allow a lack of attention or information to stand between these children and the health care they need."

Children's hospitals recommend both financial and administrative reforms to promote effective enrollment and retention. For example, 'express lane' enrollment using a single, simplified application form for multiple public assistance programs, such as the school lunch program, and procedures that allow for enrollment of children by mail or through the Internet, would reduce barriers to children' enrollment. Such proposals are included in S. 1563, the "ABCs for Children's Health Act of 2005."

Make a Federal Investment in High Quality, Safe and Efficient Care for Children

Although it is the nation's single largest payer of children's health care, the federal Medicaid program has done little to invest in pediatric quality and performance measures. There is a serious dearth of pediatric quality and performance measures for children's health care, because private payers are investing primarily in the development of measures for adult care and the federal government is investing primarily in the development of measures for the health care of Medicare recipients. Most states do not have the resources, much less a sufficiently large population of children, for the development and testing of effective pediatric measures.

Advance Pediatric Quality Measures. Children's hospitals recommend a top to bottom federal commitment to improving the safety, efficiency and effectiveness of health care services to children just as it is already doing for adults in Medicare. Such a commitment should result in better outcomes and reduce costs in hospitals.

This was the premise of a Robert Wood Johnson Foundation grant program called Pursuing Perfection. One of its grantees, Cincinnati Children's Hospital Medical Center, made a significant investment in capital and commitment to a number of initiatives from more efficient use of facilities to electronic medical records and outcomes reviews. The hospital won a national award for its progress in quality and cost effective change. But when the hospital turned to the federal government to seek a broader application of its findings, it found there was no where to go to focus on children's unique needs.

Development, testing and application of pediatric quality and performance measures cannot be accomplished on a state by state basis. Federally funded demonstration projects, with shared risk-adjusted measures appropriate to children, can advance current efforts and transfer the results across children's hospitals nationwide.

Improve Access. Emergency room (ER) use continues to rise. For non-emergent care, this is inefficient and costly for hospitals and payers and it doesn't provide children with the best care. Texas Children's Hospital, through its subsidiary, Texas Children's Pediatric Associates, has a

program to provide primary care pediatric practices in medically underserved communities where families often turned to ERs for primary care. This program, Project Medical Home, currently serves children in three communities, regardless of their ability to pay. Other children's hospitals have similar projects. Giving children and their families a consistent pediatrician or 'medical home', with extended hours and 24-hour phone availability, can reduce non-emergent ER use, deliver more efficient care and reduce hospital admissions. These models of care are not organizationally complex or bureaucratic. A federal investment is needed to replicate such innovations.

Promote Disease Management. More than half of the children served by children's hospitals have chronic conditions. Many children's hospitals have programs to provide disease management for at least some of these children. These programs are often difficult to sustain or to expand to meet the number of children who could be served, because disease management itself is often not covered by Medicaid and because outpatient and physician payments are, in general, very low. While studies at individual institutions have shown the cost effectiveness of disease management as well as the improved health of the children served, studies of a larger scope, across institutions, with more evidence-based measurement are needed. Effective disease management can help stabilize medical conditions, improve functional outcomes, prevent or minimize acute exacerbations of chronic conditions, and reduce adverse health outcomes and avoidable hospitalizations.

In sum, the children's hospitals recommend:

- A 4-year program to develop, report and evaluate national quality and performance measures for children's hospital services. The federal government is making an investment in quality and performance measures for seniors and adults in Medicare, working with hospital groups. It is time to do the same for children and Medicaid, working with children's hospitals and others with expertise in pediatric hospital measures. It will enable states and providers to have the national measures and process they need to move forward.

- A CMS Medicaid Demonstration Program: Transforming the Delivery of Children's Health Care. There are currently no avenues to fund multi-state demos or promising approaches in providing better, safer, more efficient and effective care for children. Demonstration project areas should include: Project Medical Home – children's hospitals' community based clinics for medically underserved populations, models integrating health IT and quality for children's hospital care, transforming the delivery of children's hospital care – more efficient and effective care means better care at less cost, and care management for children with chronic conditions.

Permit Children's Hospitals to Participate in the Medicaid Drug Discount Program.

Children's hospitals also recommend that Congress amend Section 340(B) of the Public Health Service Act to permit independent children's hospitals to qualify for drug purchasing discounts if they meet the criteria for the other participating DSH hospitals, with the exception that they be Medicare PPS hospitals. Independent children's hospitals are exempt from Medicare PPS**.**

Conclusion: Work on Medicaid as If It Matters to All Children

Medicaid faces many challenges today in large part because of its success in helping the nation address so many different challenges that our health care system otherwise is not designed to

handle: the long-term care needs of millions of middle and low-income Americans, the chronic health care needs of adults and children with serious disabilities, basic and catastrophic health care needs of low-income senior citizens, and the basic and catastrophic health care needs of millions of low and middle-income children.

As Congress focuses on the fiscal future of Medicaid, we urge you to act as if your decisions will have the potential to affect, directly or indirectly, every child in this country, including our own children and grandchildren.